



# **FAIR LOANS FAIR HOUSING**

**Your Guide to Avoiding  
Predatory Loans**

**To report predatory lending:**

Seattle Office for Civil Rights

(206) 684-4500

TTY (206) 684-4503

[www.seattle.gov/civilrights](http://www.seattle.gov/civilrights)

**For affordable home assistance programs:**

Seattle Office of Housing

(206) 684-0244

[www.seattle.gov/housing](http://www.seattle.gov/housing)

**Throughout Washington State:**

Department of Financial  
Institutions

1-800-372-8303

[www.dfi.wa.gov](http://www.dfi.wa.gov)

**From apartment renting  
to mortgage lending...**

If you think you've been  
discriminated against,  
call the City of Seattle's  
Office for Civil Rights:

Seattle Office for Civil Rights

(206) 684-4500

TTY (206) 684-4503

[www.seattle.gov/civilrights](http://www.seattle.gov/civilrights)

**The Seattle Office for  
Civil Rights also investigates  
discrimination in:**

Employment

Contracting

Public Accommodations

**Free, fair and impartial services**

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*Dear friend,*

*Owning a home is one of the biggest financial decisions you'll ever make. It is also one of the hardest decisions. Even when you deal with a good mortgage lender, our banking system can be confusing.*

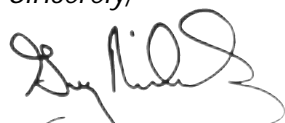
*Sadly, a few lenders also abuse the system. Predatory lenders prey on people who are unfamiliar with bank loans. They trick people into paying unnecessary fees and high interest rates. Victims of predatory lending are usually low to middle income families who face the loss of their home through foreclosure.*

*We want to ensure that everyone in Seattle receives equal treatment when buying a house. These rights are guaranteed under the Federal Fair Housing Act and our local fair housing laws. That's why the City of Seattle's Office for Civil Rights has produced this Consumer Packet on predatory loans. It contains information on:*

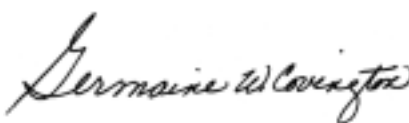
- *Illegal discrimination*
- *How to avoid predatory loans*
- *What you need to know about home loans*
- *Where to find a free mortgage counselor who can give you honest advice*
- *A glossary of common banking terms*
- *A tool to help you calculate your loan fees*

*Whether you're buying your first home or refinancing, this packet can help you receive fair, unbiased treatment.*

*Sincerely,*



*Greg Nickels, Mayor  
City of Seattle*



*Germaine W. Covington, Director  
Seattle Office for Civil Rights*

*P.S. For more information, contact the Seattle Office for Civil Rights at (206) 684-4500 or check the web at [www.seattle.gov/civilrights](http://www.seattle.gov/civilrights).*



# What is a predatory loan?

A predatory loan is a dishonest loan. Predatory loans harm borrowers by making it difficult or impossible to keep up with payments. Borrowers may pay unnecessary fees and excessive interest charges. If they miss their payments, they risk losing their homes.

Predatory lenders prey on people who are unfamiliar with the banking system. They target seniors, minorities, or anyone whose credit makes it hard to get a regular bank loan.

## What makes a loan predatory?

Predatory loans take advantage of borrowers with a variety of abusive practices. Predatory lenders:

- Target people of color, elderly and disabled people for high-cost loans;
- Charge excessive interest rates and higher fees;
- Keep secret the true costs and terms of the loan;
- Approve a loan without considering a person's ability to repay;
- Convince borrowers to refinance frequently (or "flip") the loan;
- Carry terms that make it difficult for the borrower to refinance later.

## Danger signs of a predatory loan

- Total bank fees greater than 2%;
- Balloon payment (a lump sum due at the end of the term of the loan);
- Prepayment penalties;
- Loan is based on home equity rather than the borrower's income;
- Credit life insurance added to the loan.



# How to avoid a predatory loan

Finding the best loan is no different than any other purchase. Be a smart shopper! Talk with a number of different lenders. Compare their offers. Ask questions. **Don't let anyone push you around!**

Does the subject of home loans confuse you? Get help from a local non-profit housing agency. There's a list of agencies in this packet.

Remember: before you sign, know the bottom line. In a refinance, you are always free to refuse to sign the documents and walk away from the table if you don't like the terms of the offer.

## Tips to avoid becoming a victim

- Take a free homebuyer or financial literacy class. See "Counseling Resources" in this packet.
- Fix your credit before you apply for a loan.
- Shop around. Compare loan rates and fees.
- Be sure to get all quotes in writing.
- Make a file and keep ALL loan documents and correspondence in the file.
- Have someone you trust (a family member, friend or attorney) review your documents before you sign them.
- Don't give in to pressure tactics. Don't sign unless you understand the terms of the loan.
- Are you refinancing your home? You have 3 days after you sign to change your mind. Use those days wisely.
- Think twice about financing the cost of credit insurance into your loan.
- When you use your home as collateral (a guarantee) for a loan, be extra careful! A bad loan can put your home in jeopardy.



# Questions to ask your lender

## When shopping around for a loan:

- What is your best interest rate today? What are the total loan fees?
- Is this rate fixed or adjustable? (A fixed interest rate stays the same for the life of the loan, while an adjustable rate changes.)
- What is the total monthly payment, including taxes and insurance?
- What is the term (length) of the loan?
- Is there an application deposit? What is it, and how much is refundable?

## When you apply for your loan:

- Do you charge overages?  
(An overage is a fee hike designed to give more profit to the lender.)
- If I lock in my interest rate today, what is the best rate available?  
What are the fees?
- What is the annual percentage rate (APR)?
- Is there a balloon payment due on the loan?
- Are there any pre-payment penalties?  
What are they and for how many years are they in effect?
- Does the interest rate increase if my payments are late?
- What is the total monthly payment, including taxes and insurance?

## If the loan is an Adjustable Rate Mortgage (ARM), be sure to ask:

- What is the initial rate? How long will that rate stay in effect?
- How often can the rate change?
- What are the rate and payment caps (limit) each year, as well as over the life of the loan?
- Can I convert (change) my adjustable rate loan to a fixed rate without doing a new loan?
- Is there a prepayment penalty? If so, how long does it apply?

**Did your lender give you your Good Faith Estimate? Insist that you get a copy of this document within 3 days of your loan application!**

# Loan closing checklist

## Before Signing Day

1. Contact the Escrow Agent and request copies of your completed documents at least one day before your appointment to sign your loan.
2. Visit a local housing counselor, attorney or a trusted family member or friend to review **all** documents. Make sure you understand all the terms of the loan.
3. Check your Promissory Note:
  - Is the interest rate correct?
  - What is the term of the loan (30 years, 20 years or 15 years)?
  - Is there a Prepayment Penalty? Is there a Balloon Payment?  
If you are unsure of the impact of these features, talk to a lawyer or non-profit housing agency.
  - If your loan is an Adjustable Rate Mortgage (ARM), you should receive an ARM Disclosure or Rider. Review this document. Make sure you understand how often your rate can increase, how much your payment can increase when the rate goes up, and what the maximum interest rate and the maximum monthly payment are.





# Loan closing checklist

## Before Signing Day - Continued

### 4. Review your HUD-1 Settlement Statement:

- Verify all fees. Be sure each fee on the HUD-1 also appears on the Good Faith Estimate. There should be no surprises at this late stage. If the fees are substantially different, **do not sign any documents unless you agree with the new terms.**
5. If you are refinancing, what is the check amount you will receive? Is it the amount you were expecting? All debts that you planned to pay off should be listed, along with the amounts that will be mailed to creditors.
  6. If a broker is involved, is he charging anything other than a broker fee? (For example, is he also charging a processing fee, an underwriting fee, or other kind of fee that you were unaware of?)
  7. Is there a yield spread premium (YSP)\*? Be sure to ask your escrow agent even if you don't see one. YSP's sometimes are hard to spot on the HUD-1.

\* Yield Spread Premiums are fees that lenders pay to mortgage brokers when they sell you a higher interest rate. Do you see a YSP on your HUD-1 settlement statement? If so, you may not be receiving the lowest interest rate that was available to you.

## At the Signing Appointment

Check the figures on the Promissory Note and the HUD-1 that you are about to sign. Do they match the documents you received earlier from the Escrow Agent? If any terms are different, do not sign unless you agree with these new terms.



# Loan closing checklist

## Before you leave your Signing Appointment

Be sure you receive copies of each of the following signed documents upon leaving the signing appointment:

- Note;
- Deed of Trust;
- Estimated HUD-1 Settlement Statement (you should receive your final HUD-1 a day or two after your loan closes);
- Truth in Lending Disclosure;
- Servicing Disclosure;
- Insurance Disclosure  
(if you purchased any insurance products from the lender);
- \*3-Day Right to Cancel (for refinance or equity loans only).

\* Remember: you have 3 days to change your mind **after** you sign your loan documents for a refinance or equity loan. If you decide you do not want the loan within this 3-day “recission” period, you can simply walk away. Just give a signed copy of the “Notice to Cancel” to your lender. You can find this document among your closing papers.

Within 1 week of signing your loan documents, you should receive a final HUD-1 Settlement Statement in the mail. **If you do not receive this information, contact your escrow agent immediately.** This document is your official accounting of all monies paid into escrow and distributed.

Be sure to request a copy of the following items from your lender:

- Your credit report;
- Your property appraisal.

All these documents make up your Personal Loan File. Keep these together with all other items relating to your home in a safe place.



# Your home is your investment — protect it!

1. Limit your use of consumer credit cards. Avoid high cost purchases. Live within your means.
2. Stay away from rent-to-own businesses and payday lenders. The fees are crippling, and the terms put you at a huge disadvantage. Consider all other options first.
3. If you fall into debt, talk to a mortgage counselor **before** you apply for a loan. Avoid adding credit card debt to your mortgage.
4. Think twice about including a car payment in a mortgage refinance. Will you still be driving the car in 30 years? Do you want to make payments on your car over 30 years?
5. Considering life insurance? Talk to a financial planner. Mortgage Life Insurance products pay your lender but your loved ones do not receive a penny. Is that what you want?
6. Thinking about refinancing? Don't just look at your loan payments — look at the life of your loan. For example, refinancing with another 30-year mortgage may lower your monthly payment but it also means **another** 30 years of payments. Perhaps a 15-year loan would best meet your needs.
7. Now that you have become a homeowner, you will be bombarded with credit offers. Choose your credit accounts wisely. **Always read the fine print.** There is no free money — just clever advertising. Consider a credit card that is tied to your checking account. That way you cannot spend money you do not have.



# It's the law!

- Real estate agents must show you houses in the neighborhoods of your choice. No steering allowed.
- Mortgage lenders must lend to you if you are a qualified borrower, regardless of the neighborhood you choose. No red-lining allowed.
- Mortgage lenders cannot target you for high-cost loans based on your race, ethnicity, age or other protected class.
- The law bars certain actions such as:
  - Bait-and-switch: offering you an attractive loan in writing, then giving you a worse loan at closing;
  - Fraud: such as forging your signature to documents;
  - Insurance-packing: including unwanted credit insurance in the loan without your consent.
- Insurance companies must insure your residence if it qualifies for coverage, regardless of the neighborhood you choose. No insurance red-lining allowed.
- No one can refuse to sell a home to you based on your race, ethnicity, age or other protected class. No discrimination allowe



# Glossary of terms

## ***Adjustable Rate Mortgage (ARM):***

A mortgage where the interest rate can change.

## ***Annual Percentage Rate (APR)***

The actual interest rate after adding all prepaid interest charges.

## ***Balloon mortgage***

A lump sum payment that will be due at the end of the loan term.

## ***Closing***

A meeting to finalize the purchase of a property. At the meeting, the buyer signs the mortgage documents and pays all cash amounts due.

## ***Closing costs***

Costs related to closing (finalizing) your purchase or refinancing of a property. They include expenses such as points, taxes, title insurance, mortgage insurance, commissions, and loan fees.

## ***Conventional loan***

Any mortgage that is **not** insured or guaranteed by the federal government. Federally backed loans include Federal Housing Administration (FHA), Veterans Administration (VA) and U.S. Department of Agriculture Rural Development loans (formerly Farmers Home Administration or “FmHA” loans).

## ***Credit report***

A report that shows your credit history and your current debts.

## ***Debt-to-income ratio***

The percentage of your monthly income that goes to pay your debts.

## ***Deed of trust or mortgage***

A legal document that authorizes the sale of your home by someone else if you fail to keep up your payments.

## ***Down payment***

The part of the purchase price that the lender requires be paid in cash by the borrower.



***Equity***

The difference between the market value of your home and the amount you still owe, plus any liens against the property.

***Escrow***

The holding of documents and money by a neutral third party prior to or following the closing.

***Fixed-rate mortgage***

A mortgage in which the interest rate remains the same for the entire term of the loan.

***Foreclosure***

The legal process to seize a property if you fail to keep up your payments.

***Good Faith Estimate (GFE)***

An itemized list of the estimated closing costs. By law, lenders or brokers must provide this list within 3 business days of receipt of the application.

***Home equity loan***

Any mortgage loan that is not used to finance the purchase of the home.

***Interest***

A fee charged to borrow money. The interest rate is a percentage of the total amount borrowed.

***Lien***

A legal claim filed against your home.

***Mortgage***

A home loan.

***Origination fee***

One of the fees that a lender or mortgage broker may charge for processing a loan application.

***Overage***

A fee hike designed to give more profit to the lender. Lenders and loan



officers sometimes increase their fees to individual customers, then split the extra profit. Some lenders do not allow overages. When you apply for a loan, be sure to ask, "Do you charge overages?"

### ***Points***

Fees described as percentages. For example, "2 points" equals 2% of the loan amount.

### ***Prepayment penalty***

A fee charged if you pay off a loan before it is due. Not all loans have a prepayment penalty. If you have poor credit, your loan is more likely to include a prepayment penalty.

### ***Refinancing***

The process of paying off one loan with the proceeds from a new loan secured by the same property.

### ***Settlement Statement ("the HUD-1")***

The final accounting statement that shows all monies received by the escrow agent and how those funds were disbursed.

### ***Three-day right of rescission***

The three-day period required by law after document signing that allows you to cancel a refinance transaction on your home.

### ***Title***

A legal document establishing the right of ownership.

### ***Title insurance***

Insurance to protect the lender or the buyer against loss arising from disputes over title or ownership of a property.

### ***Truth in Lending Disclosure***

A legally-required document that shows the loan amount, interest rate, required payments, and total amount of interest that will be paid over the life of the loan.



# Counseling Resources

## Credit Counselors

Credit counselors work with you to deal with credit and debt problems. Before you apply for a mortgage loan, you should clean up any credit issues. If you have credit problems when you get your mortgage, you will pay a higher interest rate and higher fees.

The following non-profit organizations offer free or low-cost services:

**Consumer Credit Counseling of Olympic-South Sound**

(253) 588-1858 or (800) 244-1183

[www.cccs-nw.org](http://www.cccs-nw.org)

Helps consumers solve debt problems and find alternatives to bankruptcy.

**HomeSight**

(206) 723-4355 or (888) 749-HOME (4663)

[www.homesightwa.org](http://www.homesightwa.org)

Serves as a lender to first-time homebuyers, offers free home buyer education classes and counseling. HomeSight also develops affordable housing for first-time owners.

**Urban League of Metropolitan Seattle**

(206) 461-3792

[www.urbanleague.org](http://www.urbanleague.org)

Provides HUD-certified housing counseling for low to moderate-income residents of Seattle and King County. Counseling includes pre-purchase, pre-rental, financial planning, predatory lending, and reverse mortgage counseling for seniors.

Continued



## Counseling Resources - Continued

### HUD-Approved Mortgage Default Counselors

Are you in danger of defaulting on your mortgage? You need some good advice — and fast! The following organizations offer free or low-cost counseling services. Call today!

**ACORN Housing** (206) 243-HOME (4663)

ACORN (Association of Community Organizers for Reform Now) is the nation's largest community organization of low and moderate income families. ACORN Housing offers first-time homebuyers, mortgage default and predatory lending counseling and education.

**El Centro de la Raza** (206) 329-9442

El Centro is a multiracial community service center that provides first-time homebuyer education and counseling, move-in assistance and other services in English and Spanish.

**Fremont Public Association** (206) 694-6766 or (866) 297-4300  
[www.fremontpublic.org](http://www.fremontpublic.org)

The Fremont Public Association (FPA) helps homeowners avoid foreclosure. FPA also can advocate for homeowners to develop a strategy for past-due mortgage payments. In some cases, FPA can provide financial assistance to homeowners to prevent loss of their housing.

**HomeSight** (206) 723-4355 or (888) 749-HOME (4663)  
[www.homesightwa.org](http://www.homesightwa.org)

HomeSight offers free mortgage default counseling and other housing-related services.

**International District Housing Alliance** (206) 623-0122

The ID Housing Alliance offers one-on-one housing counseling in Chinese, Cambodian, Vietnamese and Tagalog. The agency also offers mortgage default counseling.

# Fee and Point Calculation

1. What is your total loan amount?  
(A) Total loan amount \$ \_\_\_\_\_
2. What are the fees that you will be asked to pay?
- |                               |          |
|-------------------------------|----------|
| Origination fee.....          | \$ _____ |
| Application fee.....          | \$ _____ |
| Loan discount fee.....        | \$ _____ |
| Loan processing fee.....      | \$ _____ |
| Administration fee.....       | \$ _____ |
| Underwriting fee.....         | \$ _____ |
| Document preparation fee..... | \$ _____ |
| Funding fee.....              | \$ _____ |
| Review appraisal fee.....     | \$ _____ |
| Warehouse fee.....            | \$ _____ |
| Other lender fees.....        | \$ _____ |
| Broker fee.....               | \$ _____ |
| (B) Total of all fees.....    | \$ _____ |

To calculate the total # of points you are being asked to pay, divide the total amount of fees (B) by the total loan amount (A):

$$\frac{\text{_____}}{\text{(B)}} \div \frac{\text{_____}}{\text{(A)}} = \frac{\text{_____}}{\text{Total Points}} \%$$

**Note:** The total cost of your loan should vary only slightly from one lender to another. If you have decent credit and have enough income to cover your loan, your total fees should not exceed 2% of the loan. Your total fees even might be substantially lower than 2%, depending on the lender and/or loan program you are using.



**City of Seattle**  
**Greg Nickels, Mayor**

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